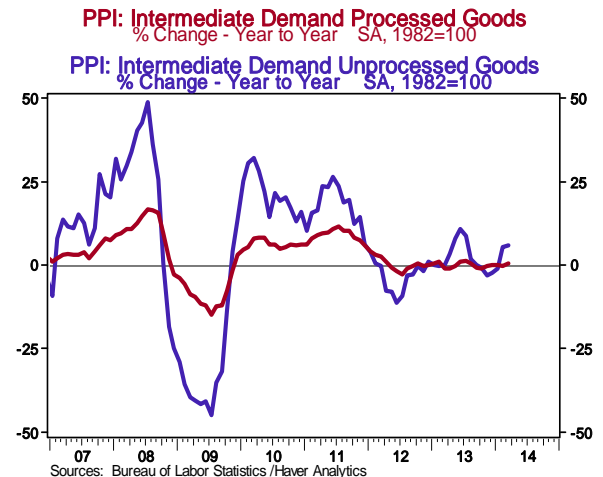
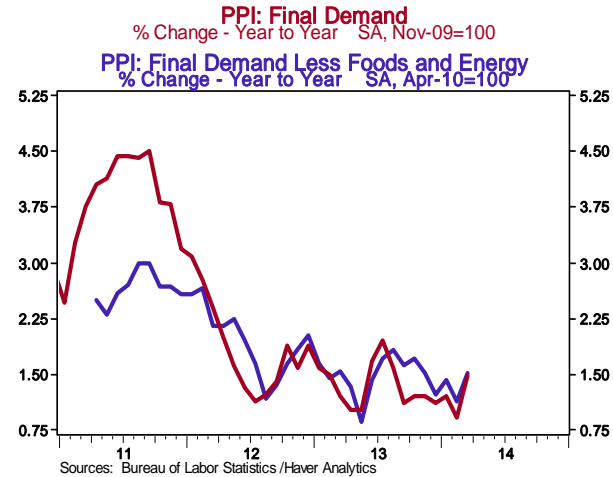


March PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Producer Price Index (PPI) rose 0.5% in March versus a consensus expected gain of 0.1%. Producer prices are up 1.5% versus a year ago.
- All of the increase in producer prices was due to services, which were up 0.7%. Goods prices, including food and energy, were unchanged.
- In the past year, prices for service are up 1.5% while goods prices are up 1.2%. Private capital equipment prices increased 0.1% in March and are up 1.6% in the past year.
- Prices for intermediate processed goods declined 0.2% in March but are up 0.8% versus a year ago. Prices for intermediate unprocessed goods declined 0.1% in March, but are up 5.9% versus a year ago.

Implications: After dropping slightly in February, producer prices surged 0.5% in March. Both the decline in February and the spike in March were led by prices in the service sector, which, until recently, weren't even counted in producer prices. Cutting through the month-to-month volatility, it appears inflation is starting to wake up from its slumber. Producer prices are up 1.5% in the past year but up at a 2.2% annual rate in the past three months. The acceleration is in prices for both goods and services. Goods prices are up 1.2% in the past year but have climbed at a 3.2% annual rate in the past three months; services are up 1.5% from a year ago but have climbed at a 1.9% rate in the past three months. Prices further back in the production pipeline (intermediate demand) are showing similar acceleration. For example, although prices for processed goods are up only 0.8% in the past year, they're up at a 4.3% annual rate in the past three months. Unprocessed goods are up 5.9% in the past year but up at a 28.8% annual rate in the past three months. Figures like these suggest the Federal Reserve should be tapering quantitative easing faster. In other recent inflation news, import and export prices surged in March, increasing 0.6% and 0.8%, respectively. However, overall import prices are still down 0.6% from a year ago, all due to a decline in petroleum. Excluding petroleum, import prices have increased 0.1% from a year ago. Export prices are up 0.2% from a year ago, 0.4% excluding farm products. In broader news on the economy, initial unemployment claims declined 32,000 last week to 300,000, the lowest level in almost seven years. Continuing claims dropped 62,000 to 2.78 million. As a result, our early payroll models suggest job growth of about 200,000 in April. After a winter hibernation, the Plow Horse economy has woken up and is ready to go.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Mar-14	Feb-14	Jan-14	3-mo % Ch. <i>Jan-14</i>	6-mo % Ch. <i>Jan-14</i>	Yr to Yr <i>% Change</i>
Final Demand	0.5%	-0.1%	0.2%	2.2%	1.7%	1.5%
Goods	0.0%	0.4%	0.4%	3.2%	2.3%	1.2%
- Ex Food & Energy	0.1%	0.2%	0.4%	2.6%	2.0%	1.2%
Services	0.7%	-0.3%	0.1%	1.9%	1.1%	1.5%
Private Capital Equipment	0.1%	0.1%	0.2%	1.5%	0.9%	1.6%
Intermediate Demand						
Processed Goods	-0.2%	0.7%	0.6%	4.3%	1.9%	0.8%
- Ex Food & Energy	-0.2%	0.6%	0.3%	2.7%	1.7%	0.3%
Unprocessed Goods	-0.1%	5.7%	0.9%	28.8%	12.8%	5.9%
- Ex Food & Energy	0.5%	-0.7%	1.4%	5.0%	5.1%	-3.6%
Services	0.4%	0.2%	0.0%	2.2%	1.7%	1.5%

Source: Bureau of Labor Statistics